

**UNITED STATES DISTRICT COURT
DISTRICT OF CONNECTICUT**

JOHN B. FENN,	:	
Plaintiff,	:	
	:	Civil Action No.
v.	:	3:96 CV 736 (CFD) (Lead Case)
	:	3:96 CV 990 (CFD)
	:	3:96 CV 1647 (CFD)
YALE UNIVERSITY,	:	
Defendant.	:	

MEMORANDUM OF DECISION

Dr. Fenn, a former chemistry professor at Yale University, brought this action against Yale alleging conversion, theft, tortious interference with business relations, and violations of the Connecticut Unfair Trade Practices Act (“CUTPA”), Conn. Gen. Stat. § 42-110a, et seq., regarding a chemical mass spectrometry invention and the patent for that invention, which issued to Dr. Fenn as United States Patent No. 5,130,538 (“‘538 patent”) on July 14, 1992. Yale asserted counterclaims against Dr. Fenn, seeking an accounting and assignment of the ‘538 patent, as well as damages for breach of contract and fiduciary duty, fraud, negligent misrepresentation, conversion, theft, and unjust enrichment.

I. Background

Following a bench trial, this Court issued a Memorandum of Decision on August 19, 2003 (“2003 Memorandum”) [Doc. #430].¹ The Court concluded that Dr. Fenn failed to prove his claims against Yale and that Yale prevailed on its breach of contract, breach of fiduciary duty,

¹In its August 2003 Memorandum of Decision, the Court indicated that jurisdiction was based upon diversity of the parties and an amount in controversy exceeding \$75,000, pursuant to 28 U.S.C. § 1332(a)(1).

and fraud claims. In addition, the Court found that significant issues remained regarding Yale's claims of conversion and civil theft and ordered further briefing on those claims, as well as damages.² The following are the supplemental findings of fact and conclusions of law determined by the Court on the remaining claims.³

II. Findings of Fact⁴

A. Civil Theft

Yale alleges that Dr. Fenn's actions constitute statutory theft under Connecticut law. The Connecticut Supreme Court has held that statutory or civil theft is synonymous with "larceny." See Hi-Ho Tower v. Con-Tronics, Inc., 761 A.2d 1268, 255 Conn. 20, 44 (Conn. 2000). Connecticut General Statutes § 53a-119 defines that a person commits larceny "when, with intent to deprive another of property or to appropriate the same to himself or a third person, he wrongfully takes, obtains or withholds such property from an owner." The statute identifies the specific offenses of embezzlement (when a person "wrongfully appropriates to himself or to another property of another in his care or custody") and false pretenses (when a person "by any false token, pretense or device, he obtains from another any property, with intent to defraud him or any other person") as included within the definition of larceny. See Conn. Gen. Stat. § 53a-

²Dr. Fenn subsequently moved to dismiss Yale's counterclaims on the grounds that they were preempted by the federal Bayh-Dole Act. The Court denied his motion in a ruling dated September 29, 2004. See Doc. # 452.

³ The Court also relies here on the findings of fact and conclusions of law set forth in its previous decision.

⁴ A fuller narrative summary of the events provoking this lawsuit can be found in the Court's earlier Memorandum of Decision, dated August 19, 2003. See Doc. #430.

119(1)-(2). Yale contends that Dr. Fenn's actions properly may be classified either as embezzlement or appropriation by false pretenses, thus making him liable for larceny and civil theft.

Dr. Fenn contends that Yale has failed to prove civil theft by the heightened standard of clear and convincing evidence required for that offense. See Suarez-Negrete v. Trotta, 705 A.2d 215, 47 Conn. App. 517, 520 (1998) (stating applicable standard); see also Labrie Asphalt & Constr. Co. v. Quality Sand & Gravel, Inc., 2001 U.S. Dist. LEXIS 12561, *40 (D. Conn. Mar. 19, 2001) (citing Suarez-Negrete standard). Dr. Fenn also raises the defenses that he was acting under a good-faith claim of right to the '538 patent, and that he never intended permanently to deprive Yale of the patent; therefore, he lacked the required intent for larceny.⁵ He cites several cases in support of this proposition. See Lawson v. Whitey's Frame Shop, 682 A.2d 1016, 42 Conn. App. 599, overruled on other grounds, 697 A.2d 1137, 241 Conn. 678 (Conn. 1997); Carlyle Johnson Mach. Co. v. April, 2000 Conn. Super. LEXIS 403 (Conn. Super. Ct. Feb. 10, 2000); Hirth v. Charbonneau, 1997 Conn. Super. LEXIS 2004 (Conn. Super. Ct. Jul. 23, 1997).

The Connecticut Supreme Court has defined the clear and convincing standard of proof as "substantially greater than the usual civil standard of a preponderance of the evidence, but less than the highest legal standard of proof beyond a reasonable doubt." Miller v. Comm'r of

⁵ Dr. Fenn raises the alternative argument that the National Institutes of Health ("NIH") determined that he was the owner of the '538 patent, that such determination is binding pursuant to the terms of the federal Bayh-Dole Act, and that Dr. Fenn cannot have stolen something which he rightfully owns. Dr. Fenn raised the same argument in a motion to dismiss Yale's counterclaims. See Doc # 438. In its ruling on Dr. Fenn's motion to dismiss, dated September 29, 2004, the Court held that the NIH made no such determination and that the Bayh-Dole Act did not preclude the instant action. See Doc. # 452. Because it previously has considered and rejected Dr. Fenn's arguments on this point, the Court will not address them again here.

Correction, 700 A.2d 1108, 242 Conn. 745, 794 (Conn. 1997). The clear and convincing standard is met “if the evidence induces in the mind of the trier a reasonable belief that the facts asserted are highly probably true, [and] that the probability that they are true or exist is substantially greater than the probability that they are false or do not exist.” State v. Bonello, 554 A.2d 277, 210 Conn. 51, 66, cert. denied, 492 U.S. 927 (1989). The Court applies this standard, and holds that Yale has established that Dr. Fenn committed statutory theft with regard to the ‘538 patent by clear and convincing proof.⁶

In its 2003 Memorandum, the Court found that Dr. Fenn breached Yale’s internal patent policy, by which Dr. Fenn was contractually bound and which gave the university right of first refusal to patent any faculty inventions. Under that policy, Yale was entitled to patent the ‘538 invention itself and to receive all related royalties.⁷ That Yale did not exercise its ownership rights initially was due to Dr. Fenn’s failure “to be straightforward with Yale . . . in order to induce Yale not to file a patent application.” See Doc. # 430 at 25, 26. Specifically, the Court concluded that Dr. Fenn had

misrepresented the importance and commercial viability of the invention; . . . actively discouraged Yale from preparing and filing a patent application . . . while at the same time he was secretly preparing a patent application in his own name; . . . filed a patent application in his own name without notifying Yale and the NIH; . . . licensed the ‘538 invention . . . without notifying Yale and the NIH; . . . [and] refused to assign the ‘538 patent to Yale when Yale discovered what he had done and repeatedly asked that he do so.

⁶ The Court here relies on its earlier findings of fact that Dr. Fenn committed breach of fiduciary duty and fraud, which violations also were established by clear and convincing evidence. See 2003 Memorandum at 22-26.

⁷ Dr. Fenn, as inventor, would remain entitled to a share of Yale’s net royalties under the university policy’s profit-sharing formula.

Id. at 22. Furthermore, Dr. Fenn “purposefully” engaged in this fraud, even though he “knew that his representations and omissions did not accurately represent the facts concerning the invention and its commercial value.” Id. at 26. Yale established that Dr. Fenn committed all the elements of larceny: He acted intentionally to deprive Yale of a patent, the ownership of which he knew Yale was entitled to under university policy, by filing his own patent application in secret. Even after Yale realized Dr. Fenn’s fraud, Dr. Fenn continued to withhold rights to the ‘538 patent from Yale. The Court agrees that Dr. Fenn’s larceny could be categorized as embezzlement, since he wrongfully appropriated Yale’s property rights in the ‘538 patent while that patent was in Dr. Fenn’s custody. It alternatively could be categorized as larceny by false pretenses, as Dr. Fenn obtained the patent through false pretense and device and with the intent to defraud Yale. Dr. Fenn’s proffered defense that he never intended to permanently deprive Yale, does not negate any of the elements of civil theft: the property at issue belonged to Yale, and Dr. Fenn’s intentional course of action deprived Yale of that property.⁸ No matter what specific category of larceny he committed, Dr. Fenn is guilty of civil theft under Connecticut law.

Nor do the cases cited by Dr. Fenn in support of his argument—that he was acting under an “honestly held claim of right” and thus lacked the intent to commit civil theft— sway the Court. The precedents upon which Dr. Fenn relies can be distinguished from the case at bar. The “honestly held claim of right” language first appeared in Lawson v. Whitey’s Frame Shop, 682 A.2d 1016, 42 Conn. App. 506 (Conn. App. Ct. 1996). In Lawson, each plaintiff had outstanding parking tickets totaling more than \$3,000, which led to their automobiles being

⁸ Furthermore, the Court concludes that it indeed was Dr. Fenn’s intention to permanently deprive Yale of its property rights in the patent.

towed to and impounded at a Hartford city lot. The plaintiffs then formally contested the validity of some of the tickets, and a Hartford city administrative officer lowered the amount owed to approximately \$1,000 per plaintiff. Sometime after that hearing, plaintiffs notified the defendant parking lot that they were continuing to challenge the tickets. Eventually, the city deemed the remaining fines uncollectible and issued parking ticket releases to each plaintiff. The contract between the city and the parking lot, however, specified that vehicles could only be released after proof of full payment was demonstrated. The plaintiffs' parking ticket releases therefore were ineffective to retrieve the impounded automobiles. Despite plaintiffs' notice to the defendant of their legal challenges and plaintiffs' efforts to recover their vehicles, the parking lot deemed the cars "abandoned" and sold them for salvage value. See id. at 600-04.

A state trial court determined that the plaintiffs had not truly abandoned their vehicles, that the parking lot resultingly lacked any authority to dispose of the cars, and found the parking lot guilty both of conversion and civil theft. The Appellate Court then reversed the plaintiffs' award of treble damages for statutory theft under Conn. Gen. Stat. § 52-564, holding that "the trial court did not find that the defendant intended to deprive the plaintiffs of their automobiles. In fact, the trial court stated that 'the defendant was acting under an honestly held claim of right.'" Id. at 606. Without the trial court specifically finding that the defendant had acted intentionally, "the plaintiffs' proof that the defendant converted their property [could not], on its own, support a finding of statutory theft. . . ." Id. The Appellate Court did not say that a person acting under an honestly held claim of right could never be found guilty of statutory theft. Rather, the Appellate Court's ruling was limited to pointing out the insufficiencies in the trial court's findings of fact, and cautioning that such a conflicting finding might serve to negate

intent.

The Connecticut Superior Court next applied Lawson in the case of Hirth v. Charbonneau, 1997 Conn. Super. LEXIS 2004 (Conn. Super. Ct. Jul. 23, 1997). Hirth involved a dispute between holders of a security interest in kitchen displays and the landlord of the building in which those displays were housed. The displays had been used by a kitchen remodeling corporation at its leased showroom. When the corporation failed to make rent payments on the showroom, the landlord changed the locks and removed the displays from the premises. The security interest-holders then sued the landlord for conversion and civil theft. See id. at *1-*8. The trial court in Hirth held that the defendant landlord lacked the authority to dispose of the display equipment, and therefore wrongfully had converted the plaintiffs' property. Relying on Lawson, the trial court judge nonetheless declined to award treble damages for statutory theft since the "defendant believed in good faith—albeit wrongly—that he could exercise a 'landlord's lien' and that he removed and disposed of the property pursuant to this mistaken belief." Id. at *12. The defendant's mistaken but good-faith belief that he possessed rights in the property negated the intent required for an award of civil theft.

A Connecticut Superior Court judge again applied Lawson in Carlyle Johnson Mach. Co. v. April, 2000 Conn. Super. LEXIS 403 (Conn. Super. Ct. Feb. 10, 2000). The Carlyle Johnson defendants initially had contracted to develop an improved "gearless transmission" device. After developing the transmission, the company with whom defendants had contracted went bankrupt. Defendants claimed that the bankrupt company had materially breached the contract by not paying them in full, and therefore that the former company had ceded any contractual rights it possessed in the patent. Defendants patented the transmission themselves in 1995. The case

arose when the plaintiff subsequently purchased the bankrupt company, claimed rights to the patent under the bankruptcy reorganization plan, and sought damages for defendants' conversion of the patent rights. See id. at *1-*4.

The Carlyle Johnson trial court found that there could be “no question” that defendants had converted the patent, which properly belonged to the plaintiff as successor in interest to the underlying contract. Yet, while the evidence was “clear that [defendants] had no valid claim of right to the patent,” the Superior Court did not find the defendants additionally guilty of civil theft, holding that the plaintiff had not met its burden of disproving that the defendants had operated under an “honestly held claim of right” in pursuing the patent. Because the plaintiff had not shown that defendants acted intentionally, it could recover for conversion but not civil theft. Id. at *51.

Lawson, Hirth, and Carlyle Johnson all demonstrate that, in order for a plaintiff to recover for civil theft, the defendant must be shown to have acted intentionally to deprive another of his or her property. In certain circumstances, a party operating under a mistake of law or fact as to his rights may not have intentionally deprived another, and so could only be found guilty of conversion.⁹ Such is not the case here. Dr. Fenn's argument that he was acting under a good-faith claim of right is not borne out by the record. While Dr. Fenn may have believed that he had a right to the patent, he had no good-faith basis for that opinion: Yale produced clear and convincing evidence to show that Dr. Fenn intentionally flouted a university patent policy of

⁹ Conversion is a lesser included offense of statutory theft, which “requires a plaintiff to prove the additional element of intent over and above what he or she must demonstrate to prove conversion.” See Lawson, 42 Conn. App. at 606. Therefore, a defendant found guilty of statutory theft necessarily also has committed conversion.

which he was well-informed, and that he continued to conceal material facts from Yale so that the university would not discover his actions. Even after he applied for the '538 patent in secret, Dr. Fenn intentionally hid its existence from Yale.¹⁰ Dr. Fenn also testified that he chose to pursue the patent in an attempt to “show up how [Yale] handled its business, which in my view was incompetent.” See 2003 Memorandum at 13. Clearly, Dr. Fenn’s motives included an intentional desire to “show up” and embarrass Yale by depriving the institution of a valuable patent, but also included a desire to keep permanently the patent and the profits it generated. Dr. Fenn has committed both conversion and statutory theft under Connecticut law, and Yale is entitled to treble damages under Conn. Gen. Stat. § 52-564.¹¹

¹⁰ Among such instances, the Court notes that Yale copied Dr. Fenn on a fall 1989 letter to the NIH, in which Yale stated that the subject invention was unpatentable. Dr. Fenn knew that he already had applied for the '538 patent, but “he did nothing to correct [Yale’s] unintentional misrepresentation to the NIH that no patent application had been filed.” 2003 Memorandum at 13-14. In his own correspondence to the NIH, Dr. Fenn was less than fully candid about the fact that he had applied for the '538 patent as a private individual, and not as a representative of Yale. See Doc. # 452 at 7-9.

¹¹ “In Connecticut, intangible property interests have not traditionally been subject to the tort of conversion, except for those intangible property rights evidenced in a document.” Hi-Ho Tower v. Con-Tronics, Inc., 761 A.2d 1268, 255 Conn. 20, 44 (Conn. 2000). As a patent is evidenced in a document, it is properly included within the tort of conversion. At least one Connecticut Superior Court judge has applied the same criterion to civil theft, and commented that deprivation of intangible property rights evidenced in a document can be subject to treble damages under § 52-564. See Brandt v. Walker Digital, LLC, 2004 Conn. Super. LEXIS 3221, *12 (Conn. Super. Ct. Nov. 1, 2004) (citing Hi-Ho Tower).

This Court holds that since conversion is a lesser included offense of civil theft, and since a patent is a form of property as contemplated within the scope of the civil theft and larceny statutes, Dr. Fenn may be held liable for treble damages under § 52-564 for statutory theft of the '538 patent.

B. Measure of Damages

1. Treble Damages for Statutory Theft

Having determined that Yale is entitled to treble damages under Conn. Gen. Stat. § 52-564, the Court bases those damages on the amount received by Dr. Fenn for licensing the ‘538 patent to Analytica of Branford, Inc. (“Analytica”) prior to January 30, 1997.¹² In its 2003 Memorandum, the Court found that Analytica directly had paid Dr. Fenn \$302,435.16 in royalties on the ‘538 patent. Applying the terms of 1989 Yale internal patent policy, Dr. Fenn is entitled to 50% of the first \$100,000 of royalties ($.50 \times \$100,000 = \$50,000$), 40% of the second \$100,000 of royalties ($.40 \times \$100,000 = \$40,000$), and 30% of all remaining royalties ($.30 \times \$102,435.16 = \$30,730.55$).¹³ From the first \$302,435.16 in royalty payments, Dr. Fenn therefore earned \$120,730.55. The remaining amount of \$181,704.61 constitutes Yale’s damages. Trebling that damages figure according to § 52-564 yields a total of \$545,113.83 that Dr. Fenn owes to Yale.

2. Punitive Damages

Yale has also sought to be awarded its attorneys’ fees as punitive damages according to Connecticut common law. The Connecticut Supreme Court has stated that

to furnish a basis for recovery of punitive damages, the pleadings must allege and the evidence must show wanton or wilful malicious misconduct, and the language contained in the pleadings must be sufficiently explicit to inform the court and

¹² After that date, Analytica began paying the disputed licensing fees for the ‘538 patent into an escrow account. Therefore, the only monies that Dr. Fenn wrongfully could have appropriated from Yale are those that were paid to him prior to the establishment of the escrow account.

¹³ For fuller discussion of the terms of Yale’s 1989 patent policy and its applicability to the instant case, see the Court’s 2003 Memorandum at 2-9, 19-21.

opposing counsel that such damages are being sought. If awarded, punitive damages are limited to the costs of litigation less taxable costs, but, within that limitation, the extent to which they are awarded is in the sole discretion of the trier.

Label Sys. Corp. v. Aghamohammadi, 852 A.2d 703, 270 Conn. 291, 335 (Conn. 2004).

Yale argues that Dr. Fenn's intentional breach of his fiduciary duty to the university constituted "reckless indifference to the rights of others," and therefore warrants an award of attorney's fees. See Post-Trial Briefing by Yale University on Issues Ordered by this Court (Doc. # 24) at 15 (citing Berry v. Loiseau, 614 A.2d 414, 223 Conn. 786, 811 (Conn. 1993)). Dr. Fenn contends that a breach of fiduciary duty should not automatically result in an award of punitive damages, and that the purpose behind punitive damages would not be served by granting Yale attorneys' fees here. See Plaintiff's Response to Defendant's Post-Trial Briefing (Doc. #441) at 6-7.

Connecticut has long limited punitive damage awards to the victim's costs of litigation. The State's policy is intended to fulfill "the salutary purpose of fully compensating a victim for the harm inflicted on him while avoiding the potential for injustice which may result from the exercise of unfettered discretion by a jury." Waterbury Petroleum Prods. v. Canaan Oil & Fuel Co., 477 A.2d 988, 193 Conn. 208, 238 (Conn. 1984). While punitive damages must be reasonable, "proof of the expenses paid or incurred affords some evidence of the value of the services, and if unreasonableness in amount does not appear from other evidence or through application of the trier's general knowledge of the subject-matter, its reasonableness will be presumed." Markey v. Santangelo, 485 A.2d 1305, 195 Conn. 76, 80 (Conn. 1985) (internal quotations omitted). In the instant case, Yale reports that it has incurred \$492,435.30 in legal

fees through November 30, 2003; Dr. Fenn does not dispute the amount of these fees, nor their reasonableness.

In accordance with its August 19, 2003 Memorandum of Decision, the Court finds that Dr. Fenn's actions were both recklessly indifferent to Yale's rights and willfully malicious. The Court previously found that Dr. Fenn "acted purposefully" to misrepresent the status of the '538 patent because he was in part "motivated by his personal financial interests." 2003 Memorandum at 26. Dr. Fenn committed a gross and knowing breach of his fiduciary duty to Yale on a quest to prove the university's "incompetence" and to keep the profits from the patent himself. To achieve his desired ends, Dr. Fenn "fraudulently concealed the truth with the specific intent of preventing Yale from asserting its rights." *Id.* at 33. While Dr. Fenn rightly asserts that not all breaches of fiduciary duty rise to the level of willful misconduct warranting punitive damages, the facts of his case are egregious enough to reach that extraordinary level. Therefore, the Court additionally awards punitive damages to Yale in the amount of \$492,435.30, plus any attorneys' fees incurred by Yale between November 30, 2003 and January 18, 2005.¹⁴

C. Miscellaneous Relief

Yale also seeks an assignment of the '538 patent and an assignment of the license agreement between Dr. Fenn and Analytica regarding the '538 patents. Dr. Fenn opposes these requests, arguing that they are overreaching and inequitable.¹⁵

¹⁴ Yale may seek such additional damages in a post-judgment proceeding.

¹⁵ Dr. Fenn's opposition to assigning the patent itself is grounded in his belief that only the National Institutes of Health may determine ownership of the '538 patent under the federal Bayh-Dole Act. The Court already denied Dr. Fenn's Bayh-Dole claims in a ruling dated September 29, 2004. *See* Doc. #452. While noting that Dr. Fenn continues to oppose assignment of the '538 patent, the Court will not further discuss his arguments on that issue here.

The Court rules in favor of defendant Yale. Dr. Fenn only obtained the patent through fraud, civil theft, and breach of fiduciary duty; he may not profit from his own wrongdoing. A patent is property which, when wrongfully obtained, may be reassigned to its rightful owner. See, e.g., Conway v. White, 9 F.2d 863, 866, 871-72 (2d Cir. 1925) (holding that “agreements to assign any future inventions one may make may be specifically enforced” and ordering that defendant transfer legal title to plaintiffs for inventions devised while in employ of plaintiff’s assignors); Goldwasser v. Smith Corona Corp., 817 F. Supp. 263, 276-77 (D. Conn. 1993) (applying Connecticut law to determine patent ownership, holding that plaintiff “was under an obligation to assign patents” to defendant employer pursuant to employee agreement, and ordering such an assignment); Transparent Ruler Co. v. C-Thru Ruler Co., 28 A.2d 232, 129 Conn. 369, 373 (Conn. 1942) (holding that Connecticut court had “power to compel [defendant] to assign [patent] to its rightful owners, found by it to be plaintiffs.”) Dr. Fenn was employed by Yale under the sort of agreement contemplated by the case law, and Yale correspondingly is the rightful owner of all inventions devised by Dr. Fenn while in the University’s employ.

Therefore, the Court orders that Dr. Fenn assign the ‘538 patent to Yale, as the terms of Yale’s 1989 patent policy dictate. The Court further orders that Dr. Fenn assign his interests under the ‘538 patent license agreement with Analytica to Yale.¹⁶ Finally, the Court vacates its order for prejudgment remedy dated May 20, 1997 (Doc. #116), to the extent that Analytica is directed to dissolve its escrow accounts, to pay the escrowed past royalties to Yale in accordance

¹⁶ Dr. Fenn argues that it would be inequitable for the Court to order him to assign the license agreement with Analytica to Yale, since that agreement is under dispute in one of the cases consolidated with this litigation, and because that agreement implicates the rights of other parties. As Dr. Fenn is being ordered to assign only his rights in the license agreement as patent holder, the Court finds that no inequities would result from such an assignment.

with section II.B.1 of this memorandum and the terms of Yale's 1989 patent policy, and to pay all future royalties pursuant to the '538 patent license agreement to Yale as they become due. The Clerk is directed to prepare a judgment in the case of 3:96CV1647 (CFD) which reflects the terms of this memorandum of decision.

So ordered this __8th__ day of February 2005 at Hartford, Connecticut.

_____/s/ CFD_____
CHRISTOPHER F. DRONEY
UNITED STATES DISTRICT JUDGE